

# The State of Working Pennsylvania 2005

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# The Keystone Research Center

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## OVERVIEW

This year's *State of Working Pennsylvania* is released at a time of growing uncertainty about the national economy. Rising energy costs, indications that the housing market bubble may burst, and quickening inflation and interest rates have led some economic observers to anticipate a slowdown over the next few months.

In Pennsylvania, vulnerability to a slowdown, if it occurs, will be heightened by the fact that three years of economic recovery have brought only wage stagnation or decline for most workers.

This stagnation coupled with rising gas prices help explain the intensity of public reaction to the 16-34 percent pay increases enacted for members of the General Assembly in July. This reaction, in turn, has left the legislature searching for ways to demonstrate its concern for the average Pennsylvanian.

One of the actions under consideration is an increase in the state's minimum wage from the current \$5.15 per hour to \$7.15 per hour.

Based on a review of the latest Pennsylvania labor market data and of research on the impact of raising the minimum wage, this report concludes that a state minimum wage increase should be implemented. It also concludes that future erosions in the value of the Pennsylvania minimum wage should be protected against with an automatic annual cost-of-living increase.

A minimum wage increase would be consistent with the Pennsylvania value, expressed by many members of the General Assembly this year when they voted to raise their own pay (and also expressed in the mid-1990s when they established for themselves an automatic cost-of-living adjustment), that hard work be fairly rewarded.

The best available economic research, which evaluates the real-world effects of minimum wage increases, suggests that raising Pennsylvania's minimum wage would not lead to significant job losses.

Third, an increase in the minimum wage would strengthen the Commonwealth's economy by encouraging companies to compete based on ingenuity and effective management rather than low wages.

In sum, an increase would help create a more moral economy: an economy more consistent with Pennsylvania values and one that works well on economic terms.

Uncertainty about the national economy means that the recent job market may be as good as it gets for Pennsylvania workers for quite some time (see Box 1). It is from this perspective that the data on the labor market in the *State of Working Pennsylvania 2005* must be viewed. What these data show is that Pennsylvania workers have gained little or nothing from the economic recovery that began toward the end of 2001. This is especially true of workers at the low end of the job market.

- The inflation-adjusted hourly earnings of typical low-wage Pennsylvania workers fell 10 cents per hour between 2003 and 2004 and 15 cents per hour since 2001, to \$7.16 per

### *Box 1. The National Economic Context*

While it is too early to worry about another recession, some economists in investment firms have begun to warn publicly about the likelihood of a general economic slowdown in the first half of next year. As August drew to a close there was growing speculation on Wall Street about whether the U.S. economy could bear up under rising oil prices and the Federal Reserve's interest rate increases.

The news that surging oil prices drove inflation up 0.5 percent in July deflated the stock market optimism that has been a driving force in the recovery. In other sobering news, Wal-Mart almost simultaneously warned that its third quarter earnings would be down – an indicator of sluggish retail markets that cater to low- and moderate-wage workers.<sup>1</sup>

Then came news just 10 days later that orders for durable goods fell 4.9 percent in July, the largest decline in 18 months. The number called into question predictions that a recovery in the manufacturing sector -- the most beaten-down portion of the U.S. and Pennsylvania economies -- might be underway.<sup>2</sup>

As oil prices continued to climb predictions in August that oil might reach \$100 a barrel by mid-2006 seemed more credible as did concerns about sustained inflation and worries about whether consumers, already much in debt, would be able to spend on anything more than staying warm this winter and getting to work and back.

On August 28, the *New York Times* reported Federal Reserve chairman Alan Greenspan acknowledging what Cassandra's of the housing market have warned for some time – that the United States is due for a slowdown and possibly a decline in housing prices.<sup>3</sup> Since housing prices and low-interest home equity loans have held up U.S. consumer spending despite sluggish job and wage growth, this is another reason for concern about the national economy.

Then came hurricane Katrina, a natural disaster of nearly unprecedented dimension in U.S. history. The storm not only devastated the city of New Orleans and Louisiana and Mississippi's Gulf Coasts with horrible cost to the region's residents, it did significant damage to important energy production and international shipping facilities on which the national economy depends. Just how much damage was done with what long-term economic impact was still being reckoned as this report went to press. In the short term, gasoline prices in across the U.S. shot up in the days after the storm. Significant impacts on home heating oil prices were predicted.

By Labor Day 2005 the only thing certain about the U.S. economy in the near term was uncertainty

<sup>1</sup> Jad Mouawad and David Leonhardt "Economy Shows Signs of Strain from Oil Prices," *New York Times* August 17, 2005.

<sup>2</sup> Vikas Bajaj "Orders Dip for Durable Goods, but Home Sales Set a Record," *New York Times* August 25, 2005.

<sup>3</sup> Edmund L. Andrews, "Greenspan Says Housing Boom is Nearly Over," *New York Times*, August 28, 2005.

hour. Their current wage level amounts to about \$15,000 per year if these workers are employed full-time, full-year.

- Low-wage Pennsylvania workers earn less in inflation-adjusted terms than they did in 1979 as well as in 2001 and 2003.
- Low-wage male workers also earned less in 2004 adjusted for inflation than in 2003 or in 2001 and 63 cents per hour less in 2004 than in 1979 -- \$7.84 versus \$8.47 per hour.
- Low-wage female workers have also lost ground; they earned \$6.71 per hour in 2004 compared to \$6.90 a year earlier and \$6.77 in 1979.
- As a result of slow wage and job growth (the latter was the focus of *The State of Working Pennsylvania 2004*), the share of Pennsylvanians in poverty rose to 12.6 percent in 2003-04 compared to 10.9 percent in 1999-2000.

Low wage workers have not been alone in feeling wage pressure. Indeed, wages throughout the Pennsylvania wage distribution fell from 2003 to 2004, except for those in the very middle of the earnings curve and at the very top (i.e., chief executive officers). While median-wage earners enjoyed an inflation adjusted increase of 13 cents per hour from 2003 to 2004, moreover, this rise was less than 1 percent. Middle-wage workers earned \$14.08 per hour in 2004, up only 9 cents from the 2001 level of \$13.99.

For workers and their families, a critical step toward improving the economic situation would be to raise the state's minimum wage and protect it against future erosion by inflation through an automatic annual cost-of-living adjustment. (The Pennsylvania legislature and Governor committed to consider a minimum wage increase when they established a Minimum Wage Advisory Commission this July.)

- A hike to \$7.15 per hour from the current \$5.15 would benefit an estimated 860,000 Pennsylvania workers and their families, helping them avoid difficult choices this winter between heating the house and keeping food on the table.
- A large body of research (summarized below) shows that raising the minimum wage does not lead to job losses.
- A higher minimum wage can benefit the economy by encouraging companies to compete based on skill and productivity not low wages and also by helping maintain workers' purchasing power.
- In the immediate context, Pennsylvania businesses as well as workers could benefit from a minimum wage hike that stabilizes the confidence of low-income consumers before rising energy costs and inflation trigger a vicious circle of declining demand and layoffs.

The benefits of increasing a state minimum wage explain why 17 states with a combined population of 131 million (nearly half the U.S. population excluding the state of Pennsylvania) have already increased their minimum wage above the federal level.

The rest of this *State of Working Pennsylvania* reviews recent trends in Pennsylvania wages, contrasting them in some cases with other variable such as productivity growth, corporate profits, and CEO salaries. The latter part of this essay looks in more detail at the minimum wage and the timeliness of raising it in Pennsylvania. Throughout this report, unless otherwise noted, dollar values are adjusted for inflation and expressed in 2004 dollars (i.e., the buying power of wages at 2004 prices). For inflation adjustments, unless otherwise stated, we use the CPI-U-RS, a consumer price index published by the Bureau of Labor Statistics (BLS).

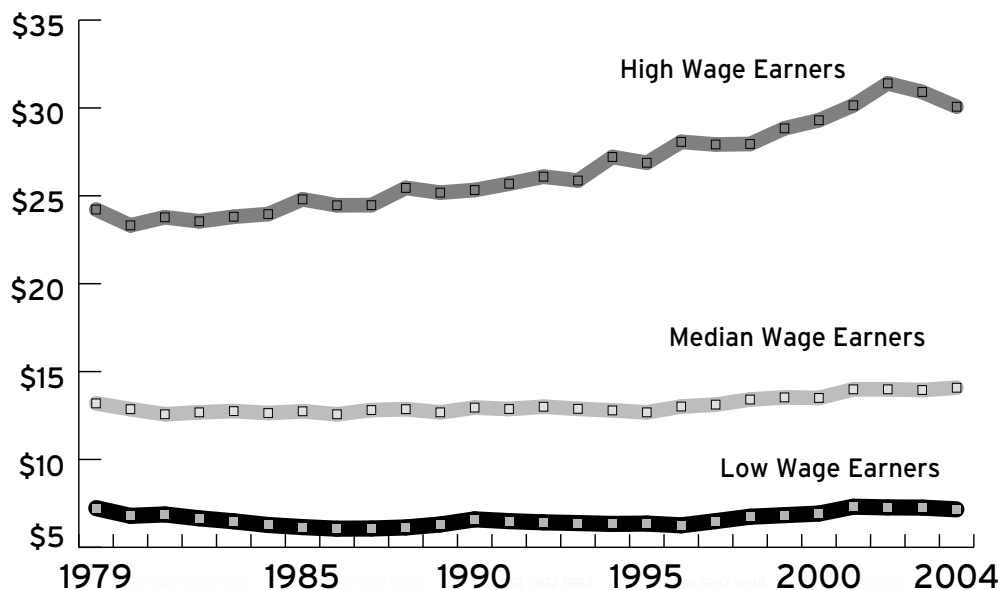
Unlike some previous *State of Working Pennsylvania* reports, this one does not contain comprehensive data on the full range of economic variables (such as unemployment, income, job growth, and health and pension benefits). Additional data and charts on a broader range of variables will be featured throughout the next year at [www.stateofworkingpa.com](http://www.stateofworkingpa.com) and [www.keystoneresearch.org](http://www.keystoneresearch.org).

## WAGE, PROFIT, INCOME, AND POVERTY TRENDS

Figure 1 and Table 1 show the hourly earnings each year from 1979 to 2004 for three categories of Pennsylvania workers: low-wage, median-wage, and high-wage. Low-wage earners have hourly wages above 10 percent of all Pennsylvania workers and below 90 percent; median-wage earners earn more than half of all workers and less than the other half; high-wage earners earn more than 90 percent of all earners and less than 10 percent. (Table 1 includes the last four years plus the years in which low-wage earners were at a peak or valley relative to the years immediately earlier and later.)

Table 1 shows that low-wage earners experienced a decline in inflation-adjusted earnings from 2003 to 2004 of a dime – from \$7.26 to \$7.16. Low-wage earners now earn 15 cents per hour less than in 2001, a fall of 2.1 percent. Low-wage earners make seven cents per hour less than they did in 1979, a full quarter century ago.

**Figure 1. Hourly Wages of High- Median- and Low-Wage Earners in Pennsylvania, 1979-2004 (in 2004 dollars)**



Note: High wage earners are defined here as those who make more than 90 percent of all workers and less than the other 10 percent. Low wage workers are defined as those who earn more than 10 percent and less than the other 90 percent.

Source: Economic Policy Institute (EPI) analysis of Current Population Survey (CPS) data.

<b>Table 1. Hourly Wages of High-, Median- and Low-Wage Earners in Pennsylvania, 1979-2004 (2004 dollars)</b>			
Year	Low-wage Earners	Median-wage Earners	High-Wage Earners
1979	\$7.23	\$13.19	\$24.22
1986	\$6.06	\$12.57	\$24.46
1990	\$6.59	\$12.95	\$25.33
1996	\$6.25	\$13.01	\$28.07
2001	\$7.31	\$13.99	\$30.15
2002	\$7.27	\$13.99	\$31.40
2003	\$7.26	\$13.95	\$30.91
2004	\$7.16	\$14.08	\$30.07

Note: High-wage earners are defined here as those who earn more than 90 percent of all workers and less than the other 10 percent, and low-wage earners are defined as those who earn more than 10 percent of all workers and less than the other 90 percent.

Source: Economic Policy Institute (EPI) analysis of Current Population Survey (CPS) data.

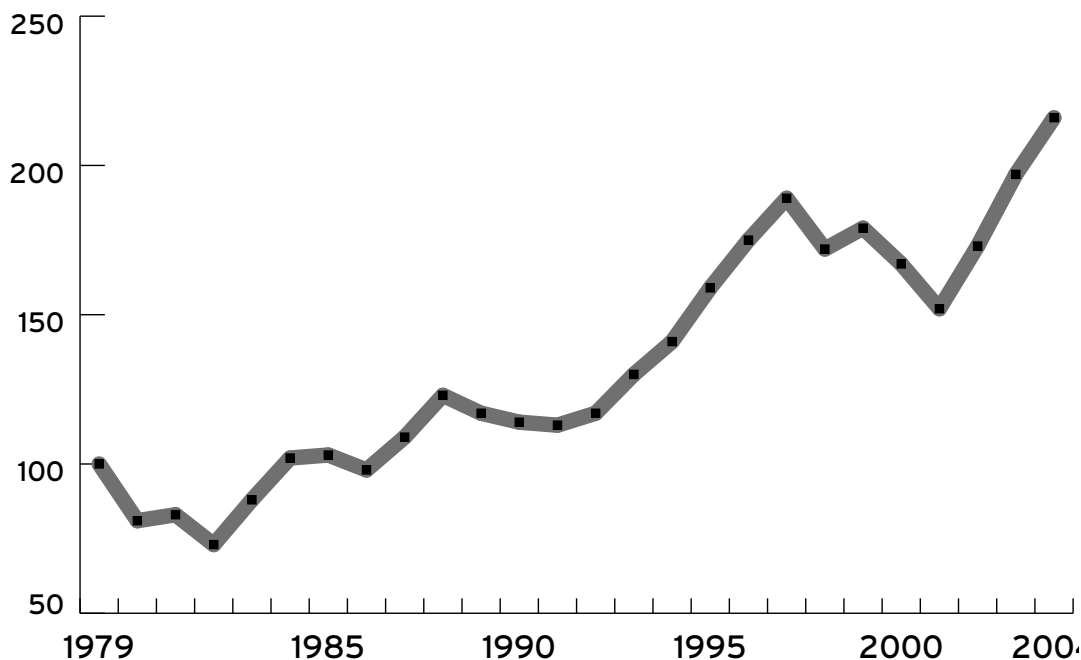
Low-wage earners were not alone in experiencing wage stagnation in 2004. Indeed, every other decile of the Pennsylvania wage distribution also experienced a wage decline from 2004 to 2003 with one exception – the 50<sup>th</sup> percentile or median wage earner. The largest wage declines occurred at the 70<sup>th</sup>, 80<sup>th</sup>, and 90<sup>th</sup> percentile (between 49 and 84 cents per hour).

The wage gain enjoyed by median-wage Pennsylvania earners was 13 cents per hour, still under 1 percent. Since 2001, median-wage Pennsylvania earners have virtually been stuck, earning just 9 cents per hour more in 2004.

While wages declined all the way up to the 90<sup>th</sup> percentile, profits rose to record levels last year (Figure 2). And, according to Forbes, CEO pay continued to rise. The average compensation of the chief executives of America’s 500 largest companies rose 54 percent last year, from \$6.6 million to \$10.2 million (calculated from data online at <http://www.forbes.com/2005/04/20/05ceoland.html>).

Figure 3 shows that the stagnation of low-wage earnings for both genders together has also been experienced by low-wage men and low-wage women considered separately. (Since the scale of Figure

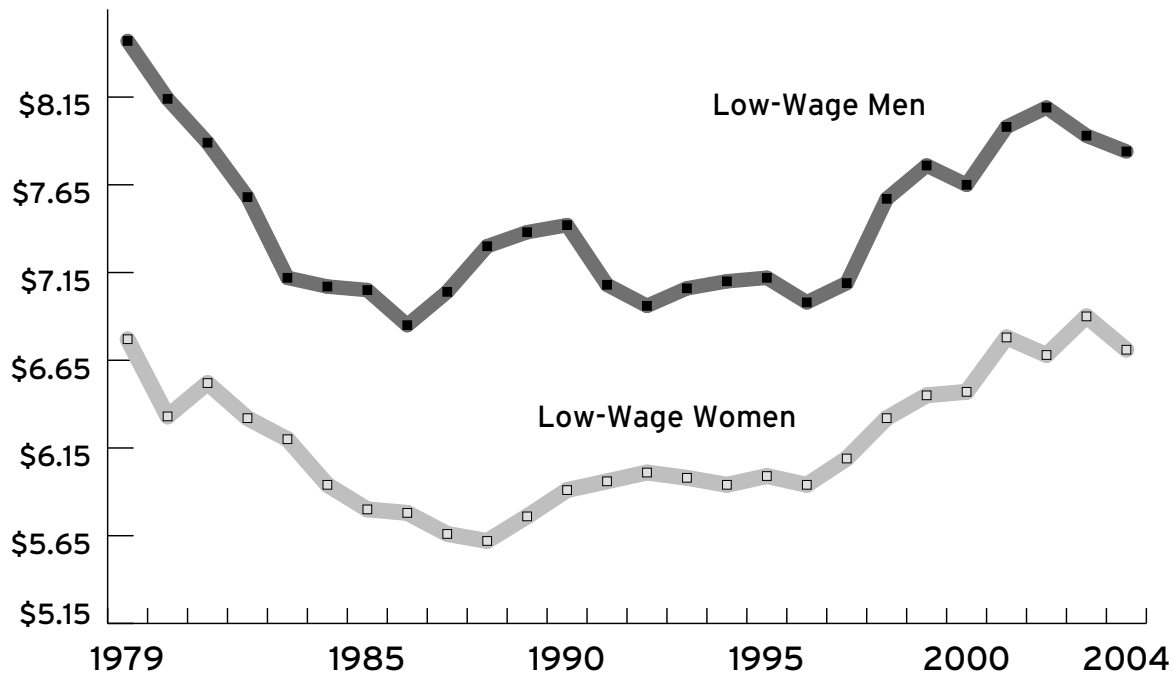
**Figure 2. Inflation Adjusted Corporate Profits 1979-2004 (in 2004 dollars)**



Note: Corporate profits with inventory valuation and capital consumption adjustments. All figures inflation-adjusted based on the CPI-RS (in 2004 dollars).

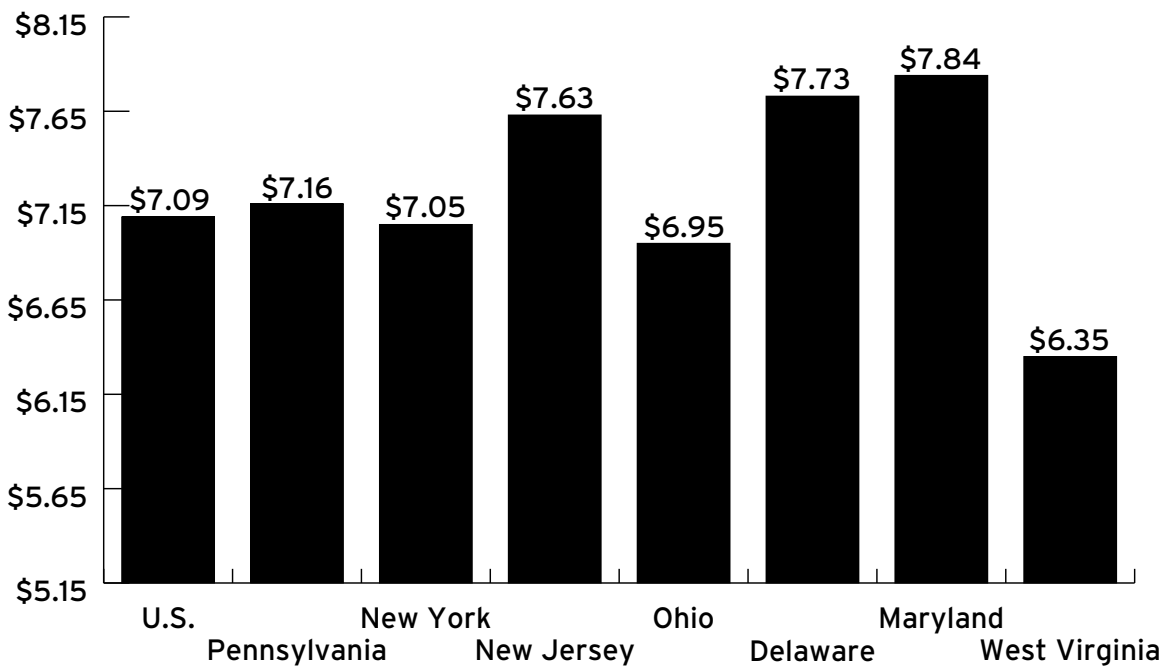
Source: Keystone Research Center (KRC) analysis of Bureau of Economic Analysis data online at <http://www.bea.doc.gov>

**Figure 3. Hourly Wages of Low-Wage Earners in Pennsylvania 1979-2004 (in 2004 dollars)**



Note: Low wage workers are defined as those who earn more than 10 percent and less than the other 90 percent.  
 Source: EPI analysis of CPS data.

**Figure 4. Hourly Wages of Low-Wage Earners in the Nation, Pennsylvania and the Region 2004 (in 2004 dollars)**



Note: Low wage workers are defined as those who earn more than 10 percent of all workers and less than the other 90 percent.  
 Source: EPI analysis of CPS data.

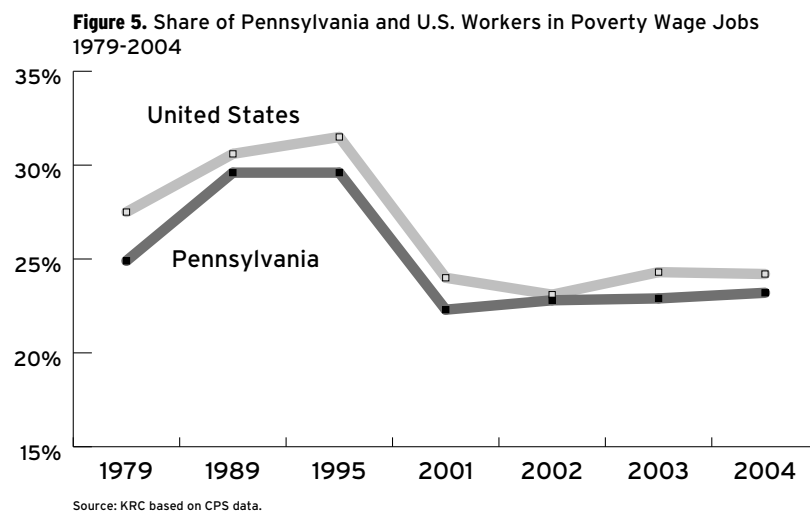
3 is different than Figure 1, year-to-year fluctuations in earnings stand out more.)

Low-wage male earnings plummeted rapidly in the early 1980s recession then bounced around \$7.15 per hour for 15 years before climbing to \$8.09 per hour in 2002. They fell by 25 cents in the last two years to \$7.84 per hour. This compares with \$8.47 in 1979.

Pennsylvania low-wage women experienced a steady earnings decline of over a dollar in the 1980s, recovered that lost ground over the 1998-2003 period, and then experienced a wage drop from \$6.90 to \$6.71 between 2003 and 2004. This end point is very similar to the 1979 starting point of \$6.77 per hour.

Figure 4 compares Pennsylvania earnings of low-wage workers with the earnings of low-wage workers in neighboring states and the entire United States. Pennsylvania's low-wage workers make substantially more than low-wage West Virginia workers; they earn 7 to 21 cents per hour more than low-wage workers in Ohio, New York, and the United States; they earn 47 to 68 cents per hour less than low-wage earners in New Jersey, Delaware, and Maryland. In 2004, Delaware was the one neighboring state that had a minimum wage above the federal level. (Since 2004, New York and New Jersey have also increased their minimum wage above the federal level.)

Figure 5 shows that the share of workers earning below a poverty wage (defined as the wage necessary for a full-time, full-year worker to earn above the federal poverty level for a family of four) rose since 2001 in both Pennsylvania and the United States, after declining steadily from 1995 to 2001. The recent rise, from 22.3 percent to 23.2 percent in Pennsylvania, reflects declining wages at the low end of the labor market (Table 1). (The poverty wage level for 2004 was \$9.28 per hour.)



Stagnant wages have also contributed to higher poverty rates and lower incomes as revealed by new Census numbers released last week.

- Pennsylvania's poverty rate increased from 9 percent in 1999-2000 to 10.9 percent in 2003-04. This compares with a national increase from 11 percent to 12.6 percent. Pennsylvania's increase in poverty in this period exceeded all of Pennsylvania's neighboring states. Delaware, which increased its minimum wage during 2000, actually saw a decline in poverty between 1999-2000 and 2003-04 (although this decline was not statistically significant).

- Pennsylvania's median household income has fallen 5 percent since 2001, from \$46,418 to the 2004 figure of \$44,131. This compares with a 3 percent fall nationally between 2001 and 2004.

The Economic Policy Institute's Labor Day 2005 release helps explain recent wage, poverty, and income trends nationally and in Pennsylvania.<sup>1</sup> The report notes that, despite unemployment at modest levels (5.1 percent in Pennsylvania and 5 percent in the United States in July 2005), overall job growth has been disappointing across the country. This translates into too much labor market slack to restore the wage growth of the second half of the 1990s. In Pennsylvania in 2004, for example, the share of involuntary part-time workers reached 12 percent in 2004 compared to 10.2 percent in 2000 (see Table 2). The 2004 Pennsylvania labor force participation rate and employment-to-population rates remain a percentage point away from their highest levels. Pennsylvania underemployment in 2004 remained almost two percentage points above its 2000 level.

**Table 2. Labor force statistics, Pennsylvania, 2000-04**

	2000	2001	2002	2003	2004	2004 minus best year
Labor force participation rate	64.0%	65.0%	65.5%	63.9%	64.5%	-1.0%
Employment to population ratio	61.4%	62.0%	61.8%	60.3%	60.9%	-1.1%
Unemployment rate	4.1%	4.7%	5.7%	5.6%	5.6%	1.5%
Long-term unemployment share	11.8%	11.2%	19.3%	22.4%	19.7%	8.5%
Underemployment rate	7.3%	8.1%	9.3%	9.2%	9.1%	1.8%
Part-time workers share of all workers	24.0%	25.2%	25.4%	24.1%	24.7%	0.7%
Part-time for economic reasons share	10.2%	10.4%	11.4%	11.9%	12.0%	1.8%
<b>Definitions</b>						
1. The labor force participation rate equals the employed plus the unemployed as a share of the total civilian non-institutional population aged 16 and over.						
2. Long-term unemployment share equals persons who have been unemployed for more than 26 weeks as a share of all unemployed.						
3. Underemployment rate = (the unemployed + part-time for economic reasons + marginally attached workers) all divided by employment + unemployment + marginally attached workers. Marginally attached workers are individuals not in the labor force who want, and are available for work, and who have looked for a job sometime in the prior 12 months (or since the end of their last job if they held one within the past 12 months), but were not counted as unemployed because they had not searched for work in the four weeks preceding the survey.						
4. Part-time workers for economic reasons: sometimes referred to as involuntary part time, this category refers to individuals who gave an economic reason for working 1 to 34 hours during a week. Economic reasons include slack work or unfavorable business conditions, inability to find full-time work, and seasonal declines in demand. Those who usually work part time must also indicate that they want and are available for full-time work to be classified as part-time for economic reasons.						
5. Part-time workers are persons who were employed fewer than 35 hours during a week.						
Source: EPI based on CPS data.						

## PENNSYLVANIA LOW-WAGE WORKERS NEED A PAY RAISE TOO

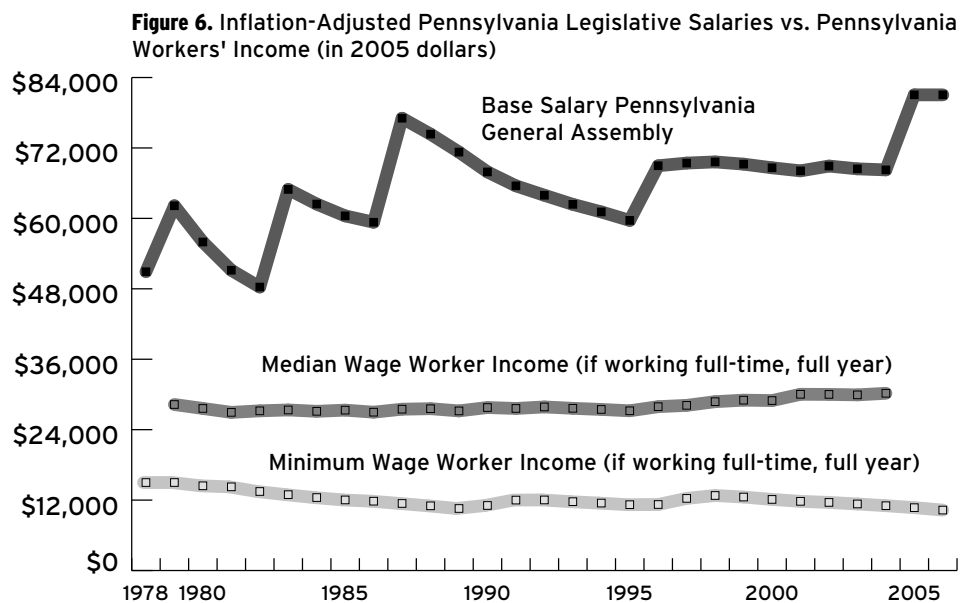
Experience over the past 25 years indicates that earnings go up at the bottom end of the labor market in two circumstances: when the minimum wage is increased and in periods of sustained low unemployment. Since 2001, Pennsylvania has had neither a strong job market nor any increases in its minimum wage.

Because the federal government has not acted to raise the minimum wage since 1997, and because inflation has eaten away at the value of the federal rate, a growing number of states have taken action to raise their minimum wage above the federal level (Table 3).

In 1997 four states had a minimum wage above the federal level of \$5.15, with none more than 50 cents above the federal level. (The District of Columbia was a dollar above.) As of August 2005, 17 states had a minimum wage above \$5.15, with 15 of 17 having one above \$6.15 per hour, and five having one at \$7 per hour or above. (New Jersey and New York will go above \$7 per hour next year and the year after.) The states with a minimum wage above the federal level have a combined population of 131 million people, nearly half (46 percent) of the U.S. population excluding Pennsylvania.

In response to the lack of federal action on the minimum wage and the minimum wage increases passed in New York and New Jersey, Pennsylvania lawmakers have drafted three bills that would increase the state minimum wage. Governor Rendell also advocates such an increase.

The focus on the state minimum wage has increased as a result of the furor over the 2005 legislative pay raise. Figure 6 shows the changes in the minimum wage and in legislative salaries since the late 1970s. The figure shows that legislators' pay has increased over 40 percent since 1978, a period in which minimum wage workers experienced a decline in pay.



Note: Inflation adjustment for 2005 based on Congressional Budget Office projection published August 15, 2005. Annual income for minimum wage workers and those earning the median wage is imputed by assuming 52 weeks of work at 40 hours a week.

Source: Federal minimum wage data (<http://www.dol.gov/esa/minwage/chart.htm>). Base salaries for members of the Pennsylvania General Assembly obtained from the *Pennsylvania Bulletin Online* (<http://www.pabulletin.com/>) (1996-2005) and Tom Barnes, *Pittsburgh Post-Gazette*, August 14, 2005 "State legislative pay raise furor not dying away" (1978-1995 and 2005).

<b>Table 3. State Minimum Wage Rates, 1997-2007</b>											
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
United States	5.15	5.15	5.15	5.15	5.15	5.15	5.15	5.15	5.15		
Alaska	5.65	5.65	5.65	5.65	5.65	5.65	7.15	7.15	7.15	**	**
California	*	5.75	5.75	5.75	6.25	6.75	6.75	6.75	6.75		
Connecticut	*	*	5.65	6.15	6.4	6.7	6.9	7.1	7.1	7.4	7.65
District of Columbia	6.15	6.15	6.15	6.15	6.15	6.15	6.15	6.15	6.6	7	
Delaware	*	*	5.65	6.15	6.15	6.15	6.15	6.15	6.15		
Florida	*	*	*	*	*	*	*	*	6.15	***	***
Hawaii	5.25	5.25	5.25	5.25	5.75	5.75	6.25	6.25	6.25	6.75	7.25
Illinois	*	*	*	*	*	*	*	5.5	6.5		
Maine	*	*	*	*	*	5.75	6.25	6.25	6.35		
Massachusetts	5.25	5.25	5.25	6	6.75	6.75	6.75	6.75	6.75		
Minnesota	*	*	*	*	*	*	*	*	6.15		
New Jersey	*	*	*	*	*	*	*	*	6.15****	7.15	
New York	*	*	*	*	*	*	*	*	6	6.75	7.15
Oregon	5.5	6	6.5	6.5	6.5	6.5	6.9	7.05	7.25	***	***
Rhode Island	*	*	5.65	6.15	6.15	6.15	6.15	6.75	6.75		
Vermont	*	5.25	5.75	5.75	5.75	6.25	6.25	6.75	7	7.25	***
Washington	*	*	5.7	6.5	6.72	6.9	7.01	7.16	7.35	***	***
Wisconsin									5.7	6.5	

\* Same as or lower than federal rate. (Before 1999, Connecticut's minimum wage was 1-3 cents above the federal rate.)  
\*\* At least \$1 above federal rate.  
\*\*\* Indexed to inflation.  
\*\*\*\* As of October 2005.  
Source: Jeff Chapman, Economic Policy Institute.

Since the 1990s, legislators have maintained and increased their salaries in two ways that offer lessons for state minimum wage policy. First, since 1996, legislators' salaries have been protected against inflation through an automatic annual cost-of-living adjustment. This prevents the type of downward slides in earnings that legislators experienced from 1979-82, 1983-1986, and 1987-1995. Second, legislators combined inflation protection with two sizable one-year pay hikes – in 1996 and the one just enacted.

In the resolution of the Pennsylvania budget and the discussion that led to a legislative pay increase, the legislature agreed to establish a Minimum Wage Advisory Commission. The Commission is charged with delivering a report to the Governor, Senate and House of Representatives by October 1 that contains the results of fact finding on minimum wage proposals, including

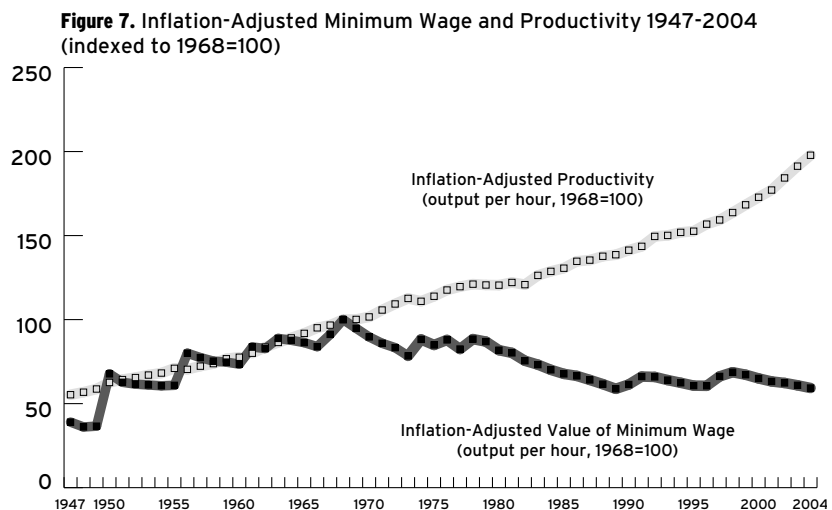
- who would be affected by different minimum wage proposals
- the potential direct and indirect cost to employers
- the effect that having a higher minimum wage than the Federal requirement has had on workers, families and employers in those jurisdictions that have implemented such increases.

After some background on the history of the minimum wage, the text below addresses each of these three questions.

## A Brief Primer on the Minimum Wage

Debates about the minimum wage today tend to be framed in terms of whether the minimum keeps pace with inflation, the implicit judgment being that minimum wage workers shouldn't get any poorer. In the quarter century after World War II, however, American policy met a much higher standard -- that low-wage workers should share roughly equally in the benefit of an expanding economic pie. Over this period, the minimum wage tracked the growth of productivity -- i.e., the average value of output produced each hour by each worker. Since productivity grew at 3 percent per year, so did the inflation-adjusted wages of minimum wage workers (Figure 7).

Since 1968, the minimum wage has lost roughly two-thirds of its value relative to national productivity. If the relationship between the minimum wage and national productivity were the same today as in 1968 the minimum wage would be almost \$16 per hour.

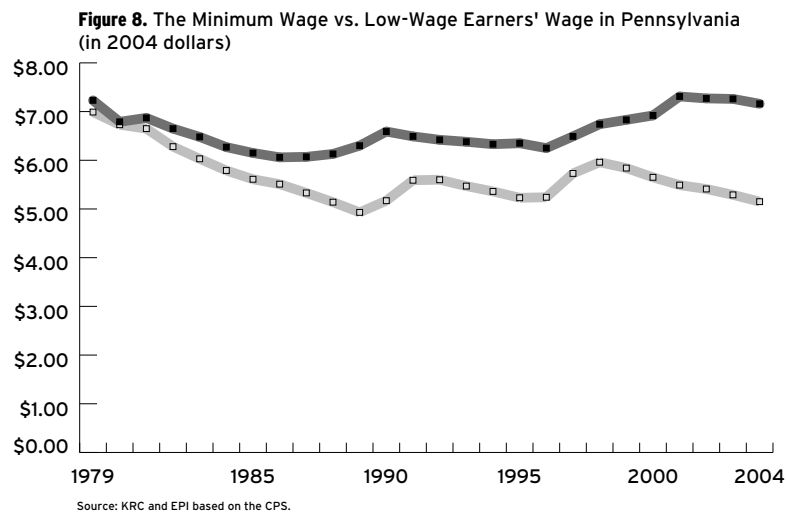


Note: For this figure inflation adjustments are made for the CPI-U since the CPI-U-S is not available back to 1947.

Source: KRC analysis of BLS productivity data and federal minimum wage data.

Since the 1960s and 1970s, however, the national consensus in support of low-wage workers sharing in the benefits of an expanding economic pie has broken down. As a result, the inflation-adjusted minimum wage has lost 41 percent of its value since 1968 and low-wage earners in Pennsylvania make slightly less than they did in 1979.

Despite its erosion, the minimum wage remains a powerful instrument for raising workers' wages at the low end of the labor market. Figure 8 shows the minimum wage in inflation-adjusted terms since 1979 compared to the Pennsylvania low-wage earners' wage presented earlier in Figure 1. Figure 8 shows that the erosion of the federal minimum wage by inflation in the 1980s went along



with an erosion in low-wage worker's earnings that was only arrested by consistent economic growth from 1984 to 1989.

Since 1990, the minimum wage and low-wage earnings have again tended to move together, the exceptions being 1991 and the 1999 to 2001 period. In 1991, an economic slowdown overshadowed the effect of a higher minimum wage. In 1999 until the first part of 2001 sustained low unemployment kept low-wage earners' wages rising.

## Who Would Be Affected?

The first question the Minimum Wage Advisory Commission has been asked to address is what are the characteristics of the Pennsylvania workers affected by an increase in the minimum wage. Table 4 answers this question for a minimum wage increase to \$7.15 per hour. Directly affected workers are those earning less than \$7.15 per hour. Indirectly affected workers are defined as those whose wages are within \$1 per hour of a \$7.15 per hour minimum wage. Past experience with minimum wage increases indicates that this group would enjoy a "spillover" increase that maintains some of their pay advantage over workers at the new minimum wage.

Table 4 shows that 510,000 workers would benefit directly and another 350,000 indirectly. With regard to the characteristics of those directly affected, they would be

- nearly two thirds female
- 71 percent aged 20 and over (i.e., not teenagers)
- drawn heavily from low-wage service industries (including retail and hospitality) and occupations (and very little from manufacturing)
- about 22 percent from rural areas

<b>Table 4. Characteristics of Pennsylvania Workers Affected By A Minimum Wage Increase to \$7.15</b>				
		Affected directly	Indirectly affected workers*	All workers**
Number of workers (in thousands)		510	350	5,285
Percent of all workers		10%	7%	100.0%
<b>Gender</b>				
	Male	35%	47%	51%
	Female	65%	53%	49%
<b>Race / ethnicity</b>				
	White	80%	80%	86%
	Black or Hispanic	17%	17%	12%
<b>Age</b>				
	16-19	29%	14%	5%
	20 and older	71%	86%	96%
	20 to 64	64%	80%	92%
	65 and older	7%	6%	0.4%
<b>Work hours</b>				
	1-19 hours	29%	17%	8%
	20-34 hours	34%	28%	13%
	Full-time (35+ hrs.)	37%	55%	80%
<b>Industry</b>				
	Retail trade	27%	24%	11%
	Leisure and hospitality	23%	15%	7%
<b>Occupation</b>				
	Sales	23%	20%	10%
	Service	36%	33%	15%
<b>Metropolitan Status</b>				
	Urban	78%	80%	81%
	Rural	22%	20%	18%
*Those earning within \$1.00 above the proposed minimum wage.				
**Includes workers not covered by minimum wage.				
Source: EPI analysis of 2004 CPS data.				

- 80 percent white
- 12 percent African American (while only 8 percent of all Pennsylvania workers are African American)
- 5 percent Hispanic (while only 4 percent of all Pennsylvania workers are Hispanic).

Nearly a quarter of African-American and Hispanic workers would benefit directly or indirectly:

- An estimated 14 percent of Pennsylvania’s African American workers would benefit directly from an increase in the minimum wage and another 9 percent would benefit indirectly because of “spillover effects.”
- An estimated 15 percent of Pennsylvania’s Hispanic workers would benefit directly from that increase in the minimum wage and another 11 percent would benefit indirectly.

Household earnings quintile	Average weekly earnings	Share of total earnings	Share of gain from minimum wage increase
1	\$272	5%	32%
2	\$587	11%	14%
3	\$891	17%	17%
4	\$1,280	24%	16%
5	\$2,272	43%	21%

Source: EPI analysis of 2004 CPS data.

Another way to characterize those affected is to consider their household income: are they rich, middle-class, or poor? Some critics have charged that a higher minimum wage is poorly targeted and goes substantially to affluent teenagers. (Note that we have already seen that only 29 percent of beneficiaries are teenagers.)

Table 5 shows (last column) that nearly a third of the benefits of a higher minimum wage would go to the poorest fifth of Pennsylvania households. This group’s share of the benefits from a higher minimum wage is six times greater than its overall share of household income (shown in the third column of Table 5.)

Another 31 percent of the benefits of a higher minimum wage would go to the second poorest fifth of households or to the middle fifth of households.

	Average share of family income contributed by affected workers	Share of affected families with 100% of earnings from affected workers
All families with an affected worker	44%	30%
Excluding families without children	40%	29%

Source: EPI analysis of 2004 CPS data.

Table 6 shows two measures of how important the earnings of beneficiaries from a minimum wage increase are to the families of those beneficiaries. The first column shows that, on average, workers benefiting from a minimum wage increase earn 44 percent of their family income. In 30 percent of families (the second column of numbers) affected workers account for all family income.

Table 7 takes another look at affected workers, listing groups of occupations that account for 24,000 or more workers. The table underscores the importance of the work performed by minimum wage workers and the fact that the rest of Pennsylvanians depends on these workers.

Affected workers include

- 165,000 cashiers and retail sales workers
- 125,000 people who prepare or serve food or wash the dishes in the commonwealth's eating and drinking establishments
- Over 90,000 clerical and administrative staff, from customer service representatives to receptionists, clerks and secretaries
- 60,000 who care for the most vulnerable Pennsylvanians who are young, old, or sick -- child care workers, preschool teachers, nursing aides, home health aides, and medical assistants
- Nearly 50,000 people who clean our offices and hotel rooms, houses and cars
- Another 50,000 who help distribute goods through our economy and drive our children to school

<b>Table 7. What Do Affected Workers Do?</b>		
Occupations	Number of workers	Share of all workers affected by a minimum wage increase
Cashiers, retail salespersons and supervisors, counter and rental clerks	164,744	19%
Cooks, other food preparers, waiters, waitresses, and dishwashers	124,345	14%
Clerical, incl. stock clerks, CSRs, receptionists, other clerks, and secretaries	92,955	11%
Early childhood and elder care workers and medical assistants	60,932	7%
Janitors, maids, housekeepers and vehicle cleaners.	46,140	5%
Grounds and agricultural workers	30,657	4%
Truck, sales, and bus drivers	28,130	3%
Laborers and freight, stock, and material movers, hand	24,936	3%
Source: KRC based on the CPS.		

- And a final 30,000 who take care of grounds and work in agriculture.

## The Potential Direct and Indirect Cost to Employers

The Minimum Wage Advisory Commission has been asked to address the potential costs of a minimum wage on employers. As the discussion below indicates, there are also potential benefits for some employers.

To employers overall, the impact on labor costs of a \$7.15 per hour minimum wage will be small. This is partly because the 16 percent of workers directly and indirectly affected by the minimum wage hike account for a small part of total wages, an even smaller share of total compensation, and a still smaller share of total costs and total sales.

Two estimates in the research literature give an indication of how modest the impact of minimum wage increases on employers' wage bill tends to be:

- A 2002 study estimated that a proposed federal minimum wage hike from \$5.15 to \$6.65 by 2004 would increase employers' total wage bill by less than one tenth of one percent.<sup>2</sup>
- A 2004 study estimated that Florida's proposed minimum wage increase to \$6.15 per hour would increase costs by 1/25<sup>th</sup> of one percent of total sales. Even for the most highly affected industry, costs were projected to increase by 0.69 percent of total sales.<sup>3</sup>

A second way to gauge the impact on employers is by considering the impact on total employment from past increases in federal and state minimum wages. If employment declines, this may indicate that employers could no longer afford to retain all their workers.

A large body of empirical evidence shows that federal and state minimum wage hikes do not lead to job losses.<sup>4</sup>

- Studies by David Card and Alan Krueger of the 1990-91 federal minimum wage increase, as well of several state minimum wage increases, found no measurable negative impact on employment. One of the state studies found that New Jersey's 1992 minimum wage increase had no measurable impact on employment in fast-food restaurants.<sup>5</sup>
- A 1998 Economic Policy Institute study found no significant job loss associated with the 1996-97 federal minimum wage increase.<sup>6</sup>
  - The low-wage labor market, in particular, performed better following the 1996-97 increase in the minimum wage than it had in decades, as evidenced by lower unemployment rates, increased average hourly wages, increased family income and decreased poverty rates.
- A recent Fiscal Policy Institute study of state minimum wages found no evidence of negative employment effects.<sup>7</sup>

- In 12 states plus the District of Columbia in which the state (or city) minimum wage exceeded the federal level, employment growth was 50 percent greater from January 1998 to January 2004 (6.2 percent versus 4.1 percent) than in the other states where the federal minimum wage prevailed.
  - In the same period, retail employment grew by 6.1 percent in the high minimum wage states versus 1.9 percent in other states.
  - In high minimum wage states, the number of small businesses with fewer than 50 workers grew by 3.1 percent versus an increase of 1.6 percent for the balance of states.
  - In retail, the number of establishments, workers, and average payroll all grew faster in the higher minimum wage states.
- State minimum wages had no significant impact on state job growth from 2000-2003, according to a recent study by the Economic Policy Institute.<sup>8</sup>

New research on the minimum wage has swayed a substantial part of the economics profession over the past decade towards support for a higher minimum wage. In a statement released by the Economic Policy Institute, more than 500 economists nationally, including three Nobel Prize-winners and four past presidents of the American Economic Association, agreed that “increases in state minimum wages in the range of \$1.00 to \$2.00 can significantly improve the lives of low-income workers and their families, without the adverse effects that critics have claimed.” This June, the Keystone Research Center released a similar statement signed by 43 Pennsylvania economists (from many of the commonwealth’s most eminent institutions of higher education) supporting an increase in the Pennsylvania minimum wage. (The statement signed by the Pennsylvania economists is on line at [www.paminimumwage.com/econstatement.htm](http://www.paminimumwage.com/econstatement.htm).)

New economic models that look specifically at low-wage labor markets help explain why there is little evidence of job loss associated with minimum wage increases. These models recognize that employers may be able to absorb some of the costs of a wage increase through lower recruiting and training costs, decreased absenteeism, and increased worker morale. Card and Krueger also document that one reason jobs do not decline is that the number of vacancies falls – because fewer workers quit and it becomes easier to attract replacements. Thus some employers end up with more workers than before the minimum wage hike.

For employers that cater to low-wage workers, consumer demand may also rise following a minimum wage hike, creating additional jobs. The Florida study estimated that retail businesses in low-income neighborhoods in Miami would experience a sales increase of about 3 percent from a minimum wage hike to \$6.15 per hour.<sup>9</sup>

A minimum wage would have particularly small impacts on Pennsylvania employers in competition with other states and nations. This is partly because the states closest to the most populous parts of Pennsylvania – Delaware, New Jersey, and New York – already have passed a higher minimum wage. It is also because manufacturing and other industries vulnerable to relocation already pay above \$7.15 and \$8.15 for the most part.

- Only 3 percent of Pennsylvania manufacturing workers earn between \$5.15 and \$7.15 per hour and another 3 percent earn between \$7.15 and \$8.15 per hour,
- In the information, financial activities, and professional and business services industries, the percentages of workers who earn between \$5.15 and \$7.15 per hour are also low (6 percent in information, 5 percent in financial activities, 7 percent in professional and business services, compared to 10 percent the workforce as a whole).

While the overall impacts on employment are not negative, some individual employers would reduce employment. As with most changes in economic policy there are winners and losers associated with a minimum wage increase. Businesses of all types and sizes are created and destroyed every day in response to changes in oil prices, new technologies and changing consumer tastes. This process of creative destruction lies at the heart of our market economy; firms adapt to changing market conditions or they die.

The individual employers who lose with a minimum wage increase are those who depend the most on paying very low wages, and who cannot find ways to reorganize production. Other employers who depend less on low wages and/or who benefit from improvements in productivity, lower workforce turnover, and increased consumer demand, may expand after a minimum wage increase.

The maintenance of a high standard of living in Pennsylvania depends on our capacity to create innovative and agile entrepreneurs who, in the pursuit of high profits, create good jobs with family sustaining wages. A higher minimum wage is an important tool for rewarding entrepreneurship that creates good jobs because it sets a minimum standard that all employers and workers must meet in terms of labor productivity. In the long run, sorting employers based on which ones can compete even while paying a more adequate wage strengthens the Pennsylvania economy.

### **The Effect of Minimum Wages Above the Federal Level in Other Jurisdictions**

Recent studies evaluating the impact of higher minimum wages in other states are summarized in the previous section. These studies have found that state minimum wage increases do not lead to job loss.

## **TOWARDS A MORAL ECONOMY**

The debate about the minimum wage speaks to a more general question: will the state's economy undercut or uphold Pennsylvania values, including the value that people who work hard should earn a decent wage?

Polls show that there is overwhelming support in Pennsylvania and in other states for increasing the state minimum wage because it resonates with people's sense of basic fairness. This resonance extends to the many families who will not benefit directly. In November 2004, for example, Florida voters approved, 71 percent to 29 percent, a measure to increase the state minimum wage. A majority of voters in every county favored the proposal. At the same time, Nevada voters approved, 68 percent to 32 percent, a measure to increase the state minimum wage. A majority of voters in every county favored the proposal.

The popular, values-based consensus for a higher minimum wage leaves only one possible non-ideological reason for opposing such a change: that it would have strong negative effects. The research summarized above shows that a higher minimum would not have negative economic effects. Opponents of a hike may continue to shed crocodile tears, claiming that a higher minimum wage will hurt those it is supposed to help. Actual experience with federal and state minimum wage increases shows that it would not.

There are, moreover, affirmative economic reasons to support a higher minimum wage – reasons more widely recognized when states and the nation first passed a higher minimum wage but no less relevant for their invisibility today. The first reason, alluded to earlier, is that a higher minimum wage can help induce more rapid adoption of higher productivity competitive strategies. This was one of its goals 100 years ago when it was used in the battle to eliminate unproductive piece-rate apparel sweatshops.<sup>10</sup> Although the composition of the economy and the types of employers most affected may differ today, the need to encourage employers to adopt higher-wage, higher-skill strategies remains.

A second affirmative reason is that the minimum wage can help maintain purchasing power when it lags behind the productive potential of the economy. Lagging purchasing power was a critical problem in the 1930s when the federal government used a new minimum wage – and many other policies, including unemployment insurance and Social Security -- to help create consumer demand that would bring the economy out of the Great Depression. Maintaining the purchasing power of middle- and lower-wage workers has become a problem once again, not only in Pennsylvania and the United States but globally. In the United States, the failure to maintain the purchasing power of working families is one reason so many Americans have become dependent on home equity loans and other forms of debt.

In sum, raising the Pennsylvania minimum wage

- is the right thing to do
- would not lead to significant job loss
- is good economics, contributing to productivity growth and sustaining consumer demand.

Raising the minimum wage is a common sense approach to achieving an economy more aligned with our values and that is more productive – a moral economy.

The General Assembly can begin a comprehensive strategy aimed at implementing a moral economy with a substantial hike in the state minimum wage and by making future cost-of-living adjustments

in the minimum wage automatic

## Endnotes

<sup>1</sup> Jared Bernstein and Lee Price, *An Off-Kilter Expansion: Slack Job Market Continues to Hurt Wage Growth*, Economic Policy Institute, September 3, 2005.

<sup>2</sup> By seven one hundredths of one percent to be precise. See Jared Bernstein and Jeff Chapman, *Time to Repair the Wage Floor: Raising the Minimum Wage to \$6.65 Will Prevent Further Erosion of Its Value*, Economic Policy Institute Briefing Paper #180, May 22, 2002.

<sup>3</sup> Robert Pollin, Mark Brenner, and Jeannette Wicks-Lim, *Economic Analysis of the Florida Minimum Wage Proposal* (Washington, D.C.: Center for American Progress and Amherst, MA.: Political Economy Research Institute, September 2004), p. 28.

<sup>4</sup> Economic Policy Institute, “Minimum Wage Facts at a Glance”; Jeff Chapman, *Employment and the Minimum Wage: Evidence from Recent State Labor Market Trends*, Economic Policy Institute Briefing Paper #150, May 11, 2004, online at [www.epinet.org](http://www.epinet.org).

<sup>5</sup> David Card and Alan Krueger, “Minimum Wages and Employment: A Case Study of the Fast-Food Industry in New Jersey and Pennsylvania: Reply,” *The American Economic Review*, Vol. 90, Number 5, December 2000, pp. 1397-1420. See also, in general, David Card and Alan Krueger, *Myth and Measurement: The New Economics of the Minimum Wage* (Princeton: Princeton University Press, 1995).

<sup>6</sup> Jared Bernstein and John Schmitt, *Making Work Pay: The Impact of the 1996-97 Minimum Wage Increase, 1998*, online at [www.epinet.org](http://www.epinet.org). For some Pennsylvania specifics, see also Keystone Research Center, *Making Work Pay: The Benefits of the 1996-97 Minimum Wage Increase for Low-wage Workers in the U.S. and Pennsylvania*, online at [www.paminimumwage.com](http://www.paminimumwage.com).

<sup>7</sup> Fiscal Policy Institute, *State Minimum Wages and Employment in Small Business*, April 20, 2004, online at [www.fiscalpolicy.org](http://www.fiscalpolicy.org).

<sup>8</sup> Chapman, *Employment and the Minimum Wage*.

<sup>9</sup> Pollin et. al., *Economic Analysis of the Florida Minimum Wage Proposal*.

<sup>10</sup> Michael J. Piore, “Labor Standards and Business Standards,” in *Labor Standards and Development in the Global Economy* (Washington, D.C.: Bureau of International Labor Affairs, U.S. Department of Labor, 2000).